BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Peoples Natural Gas Company's Request for an Indefinite Variance to Purchased Gas Adjustment Rule

ISSUE DATE: January 6, 1988

DOCKET NO. G-011/M-87-736

ORDER DENYING INDEFINITE VARIANCE AND GRANTING ONE-YEAR VARIANCE

PROCEDURAL HISTORY

On November 12, 1987 Peoples Natural Gas Company (the Company) filed with the Minnesota Public Utilities Commission (the Commission) a request for a variance of indefinite duration from Minn. Rules, parts 7825.2500 B. and 7825.2700.

The requested variance would permit the Company to make automatic price adjustments due to cost changes in gas which is not subject to federal price regulation; to make automatic price adjustments on the basis of projected sales rather than historic sales; to perform an annual Actual Cost Adjustment (true-up) to adjust for the difference between projected costs and actual costs; and to use three cents per MCF as the threshold for instituting automatic cost adjustments. The Company also requested permission to distribute any true-up credit or surcharge over a ten-month period instead of the twelve month period generally used in the industry.

The Commission has granted the Company a one-year variance allowing everything requested herein except the ten-month distribution period every year since September of 1982. The Company stated that it was seeking a variance of indefinite length for administrative convenience.

The Department of Public Service (DPS) investigated the request and submitted its comments on December 21, 1987. It recommended granting the variance for one year. It also recommended a twelve-month distribution period for the Actual Cost Adjustment.
The Company did not oppose the DPS's recommendations.

STATEMENT OF THE ISSUES

The issues before the Commission are whether a variance should be granted, how long any variance which is granted should last, and whether a ten-month or twelve-month distribution period should be adopted for the Actual Cost Adjustment.

FINDINGS AND CONCLUSIONS

The Request for a Variance

The Commission may grant a variance to any of its rules upon finding that the following conditions apply:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

2. Granting the variance would not adversely affect the public interest; and

3. Granting the variance would not conflict with standards imposed by law.

Minn. Rules, part 7830.4400.

The Commission finds that enforcing the rule would impose an excessive burden upon the Company.

If the Company is not allowed to make automatic price adjustments due to cost changes for non-federally regulated gas, it could pursue either of two alternatives. First, it could discontinue purchase of gas not subject to federal regulation. This could result in an unnecessary increase in gas costs, and be burdensome to the Company's customers. Alternatively, it could face the administrative burden of frequent rate change filings and the economic hardships of regulatory lag. Enforcing the rule with respect to allowing automatic price adjustments only on federally regulated gas would, therefore, impose an excessive burden upon both customers and Company.

Similarly, enforcing the rule with respect to the other components of the variance request -- use of projected sales, an annual true-up of gas costs, and a three-cent per Mcf threshold for implementing a change -- would excessively burden the Company and its customers. Requiring the Company to base its automatic adjustments on historic sales volumes, as the rule does, most probably would result in less accurate gas cost recovery than allowing the use of projected volumes. This could be burdensome on either the Company or its customers, depending on whether gas costs were over- or under-collected. The true-up provision is required to prevent the Company from over-collecting its gas costs due to a systematic bias in the projection of gas costs. Finally, the three-cent per Mcf threshold eliminates the administrative burden of implementing frequent, insignificant, and offsetting price increases and decreases. The Commission therefore finds that the first requirement for a variance, that enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule, has been met.

The Commission also finds that granting the variance would not adversely affect the public interest. In fact, allowing rates to reflect more closely the actual cost of gas serves the public interest by helping keep consumers apprised of what their true energy costs are. Further, and more importantly, granting the variance would remove possible administrative barriers and adverse incentives which could operate, under the rule, to prevent customers from paying the lowest possible gas costs. The Commission therefore finds that the second requirement for a variance, that it not adversely affect the public interest, has been met.

Finally, the Commission finds that there is no legal authority prohibiting the variance requested by the Company. The third requirement for a variance has therefore been met.

The Commission finds that the standards set forth at Minn. Rules, part 7830.4400 have been met and will grant the variance requested.

Duration of Requested Variance

The Commission finds that its general practice of limiting rule variances to one year periods is sound and should be continued. Rules are varied only upon a showing that the standards of Minn. Rules, part 7830.4400 have been met. Variances are designed to meet the particular needs of individual applicants and necessarily entail differential treatment for those who receive them. They should be subject to periodic Commission review in case the circumstances which initially justified them have changed.

Furthermore, the DPS is correct in its comment that any wholesale need for variances suggests the possibility that the rules being varied need changing. Variances of indefinite duration might mask the need for such change by removing the cue of repeated requests for similar variances.

The Commission will therefore limit the variance it grants the Company to one year.

Length of ACA Distribution Period

The Company proposed a ten-month distribution period for its annual Actual Cost Adjustment, on the theory that being able to include two months of actual data in its true-up calculations would make them more accurate. The actual data would be the Company's July and August sales figures. The Commission finds that the inclusion of these two off-peak months, both marked by relatively level and predictable usage, will not significantly improve the ACA's accuracy.

Since there is no significant advantage to the ten-month period, the Commission will order that the Company use the twelve-month period which is standard in the industry.

ORDER

1. Peoples Natural Gas Company is hereby granted a one-year variance from Minn. Rules, parts 7825.2500 B. and 7825.2700 to permit the Company to make automatic price adjustments due to cost changes in gas which is not subject to federal price regulation; to make automatic price adjustments on the basis of projected sales rather than historic sales; to perform an annual Actual Cost Adjustment (true-up) to adjust for the difference between projected costs and actual costs; and to use three cents per MCF as the threshold for instituting automatic cost adjustments.

2. The Company shall use a twelve month period for distribution of its annual Actual Cost Adjustment.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)